From: http://www.bankrate.com/brm/news/auto/20011226a.asp

Question: What 12-letter word should used-car buyers use to their advantage?

Answer: Depreciation.

Depreciation is the decline in a car's value over the course of its useful life. It's something new-car buyers dread. And it's something used-car shoppers need to have a handle on if they want to land a good deal on price.

"It's going to take research if you're going to get the best value," says Lenny Simms, vice president at [NADAguides.com](http://www.NADAguides.com/).

Depreciation for Dummies Let's start with some basics. Here's a standard rule of thumb about used cars. A car loses 15 percent to 20 percent of its value each year.

A 2-year-old car will be worth 80 to 85 percent of its 1-year-old value. A 3-year-old car will be worth roughly 80 to 85 percent of its 2-year-old value.

Let's say you have a 1-year-old used car worth $12,000 that loses 15 percent of its value each year. At 2 years old, the car would be worth $10,200. At 3 years old, it would be worth $8,670.

The depreciation in a car's first year tends to be even steeper. A new-car owner feels the sting immediately. A new car loses a big chunk of its value as soon as you drive it off the lot. Here's why.

When purchasing the car, you paid a retail price -- the price a dealer charges for a car.  As soon as you're off the lot, the car is worth its wholesale price, the amount a dealer would be willing to pay for a car should you turn around and head back.

http://www.buyingadvice.com/featured-car-articles/ownership-survey/

What is the most expensive part of owning a car – gas, maintenance, insurance, financing?

No, according to the AAA’s latest [cost of driving study](http://www.aaaexchange.com/Assets/Files/20073261133460.YourDrivingCosts2007.pdf), if you factor all of these costs together they would hardly match the depreciation on your vehicle as it sits in your driveway.

With the exception of a tiny number of highly collectible vehicles, our car is the most expensive asset most of us own that can be guaranteed to lose value. Sure there are risks involved in owning property or stocks, but a vehicle will be worth less the longer we drive it and most of us borrow money for the privilege.

Yet a new study by BuyingAdvice.com shows that over 70 percent of those polled did not know the anticipated vehicle depreciation rate for the model for which they requested a price quote.

The [AAA Study](http://www.aaaexchange.com/Assets/Files/20073261133460.YourDrivingCosts2007.pdf) puts the average annual cost of depreciation on a new vehicle at $3,392 per year, but there are significant variations depending on the type and model.

One certainty is that the steepest period of depreciation is in the first year of ownership, indeed some would say in the first mile. That is the point at which your “new” vehicle becomes “used” and even if you were to head right back to the dealership, they would quote you the wholesale price to buy back the car that you just paid retail for. Also any fees or sales tax you paid on your vehicle will not be counted toward the value of the vehicle.

Most leading experts put the average first-year depreciation somewhere between 15 and 20 percent of the price of the car. After that a vehicle will lose around 10 percent of its value annually for the next four years though there can be very wide variations among models and everything is dependent on the mileage driven and condition.

The speed of depreciation only becomes important to most of us when we come to sell our car. It is depressing to know that you have been making payments for years only to learn that your car is worth less than the amount you still owe.